IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO DIVISION OF FINANCIAL MANAGEMENT SEPTEMBER 2004 VOLUME XXVII NO. 3

Two years ago, we devoted an entire issue of the *Idaho Outlook* to consumers' spending patterns. Specifically, we used the U.S. Department of Labor Bureau of Labor Statistics' (BLS) 2001 *Consumer Expenditure Survey* to explore how American households in the West allocated their expenditures among different spending categories. For example, in the West, the biggest chunk, about a third of the total, was spent on housing. Entertainment, out-of-pocket health care, and entertainment each accounted for 5% of total spending. A couple of years have passed, and the importance of consumer spending continues. In this month's *Outlook* we investigate another facet of spending: consumer expenditures by income. For this study we employ the 2002 *Consumer Expenditure Survey* broken out by quintiles of income.

Before we get into the thick of the study, a few explanations are in order. First, the data incorporates "consumer units." Consumer units are roughly the equivalent to households. There are about 18,500 consumer units in each quintile in the BLS study. The BLS reported the average consumer unit consisted of 2.5 persons. Second, spending reflects "out-of pocket" spending. Thus, it may not reflect true costs. For example, health care costs are low because it solely reflects the consumers' share of costs and excludes any insurance payments. Third, expenditures are the averages for each of the five income groups. Thus, spending on highly discretionary items is diluted. Fourth, income reflects money income, so it does not reflect non-monetary benefits, such as public housing.

The average income before taxes per consumer units ranges from \$8,316 in the lowest quintile to \$121,367 in the highest quintile. Interestingly, the study shows the average income in the two lowest income quintiles were less than their respective expenditures. At the bottom, average annual expenditures are \$10,745 short of a consumer unit's average money income. Part of this gap is made by borrowing, gifts, etc. For the remaining three highest income groups, expenditures grow with income, but not proportionately. Specifically, the highest income quintile expended 65.3% of its income, while the middle-income group spent virtually all of its income. This is consistent with economic theory. The first dollars earned go toward meeting basic needs, while additional dollars go to meeting wants (and savings).

A review of food expenditures for the bottom and top income quintiles illustrates this point. Food serves as a good example because it is an expenditure everyone has to make. The BLS data show consumers in the lowest quintile spent 38.3% of their income on food—more than three times the 11.4% average. Consumers in the highest income category spent nearly three times as much on food as those in the lowest income group, but this represented less than 7.5% of their average income. The data breaks food into food eaten at home and food eaten away from home. The former is a necessity while the latter is a luxury. Economic theory suggests purchases of food away from home should rise with income and the data indeed shows this. Consumers in the lowest income quintile spent two-thirds of their food budgets on home-cooked meals. In comparison, consumers in the highest income quintile split their food expenditures about evenly between food at home and food away from home.

The study provides interesting insights into another necessity: shelter. According to the BLS data, about two-thirds of the consumer units in 2002 either owned or were purchasing their homes. However, home-ownership varied significantly by income. Not surprisingly, the bottom income quintile had the lowest homeownership rate of 42%. And, as expected, this rate climbed steadily with income. The highest income quintile had an 89% ownership rate. Interestingly, the highest income quintile also had the greatest portion of consumer units with a mortgage. Specifically, 74% of the highest-income consuming units had mortgages. The group with the lowest percentage of homeowners with a mortgage was the lowest income quintile. Only 12% of the consumer units in this category had mortgages.

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General Fund Update

As of August 31, 2004

	$ Millions		
Revenue Source	FY05 Executive Estimate[3]	DFM Predicted to Date	Actual Accrued to Date
Individual Income tax	968.0	139.6	143.6
Corporate Income tax	118.9	8.6	9.0
Sales Tax	910.8	156.1	167.5
Product Taxes[1]	21.9	3.9	4.1
Miscellaneous	105.7	16.7	15.3
TOTAL GENERAL FUND[2]	**2,125.3**	**324.7**	**339.5**

1 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
2 May not total due to rounding
3 Revised Estimate as of August 2004

General Fund revenue surged again in August, coming in $9.9 million higher than expected for the month. This brings the fiscal year-to-date excess to $14.8 million after just two months of revenue collections. Once again the sales tax is the primary source of strength for the month, although in August the individual income tax also put in a strong supporting role. The only weakness was in the miscellaneous revenue category, and this was due to an unusual refund of prior year estate tax collections.

Individual income tax collections were $3.6 million higher than expected in August, and are now $4.1 million higher than expected on a year-to-date basis. Filing collections were $0.2 million higher than expected in August, bringing them $0.6 million ahead of expectations on a year-to-date basis. Withholding collections were $3.0 million higher than expected in August, bringing the year-to-date excess for this item to $3.3 million. Refunds were $0.2 million lower than expected in August, bringing them to a level $0.8 million higher than expected for the fiscal year to date.

Corporate income tax collections were $0.8 million higher than expected in August, reversing July's slight weakness and bringing the fiscal year-to-date collections to a level $0.4 million ahead of expectations. August gross collections were exactly on target, while refunds were $0.8 million lower than expected for the month. Within gross collections filing collections were $2.6 million higher than expected and quarterly estimated payments were $2.6 million lower than expected for the month.

Sales tax collections were $6.7 million higher than expected in August, and are $11.4 million ahead of target for the first two months of the fiscal year. This is 7.3% higher than expected, and is due to year-over-year growth in sales tax collections of over 10% in both July and August.

Product taxes were exactly on target in August. Miscellaneous revenue was $1.4 million light in August as a consequence of a large refund of prior year estate tax.